

Message Text

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67

ORIGIN EB-07

INFO OCT-01 EUR-12 EA-07 IO-11 ISO-00 AGR-05 CEA-01

CIAE-00 COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05

L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

STR-04 TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01

FEA-01 AF-06 ARA-06 NEA-10 /133 R

DRAFTED BY USDA:WDOERING/EB/OT/TA:TO'HERRON

APPROVED BY EB/OT/TA:WBARRACLOUGH

TREASURY:EGREEN

COMMERCE:DSCHLECHTY

STR:JSTARKEY

EA/ANP:HNELSON

EB/OT/TA:TO'HERRON

EB/OFD/FPD:FMCELDOWNEY

EB/ITP/STA:WCLARK

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R 201556Z JAN 76

FM SECSTATE WASHDC

TO AMEMBASSY WELLINGTON

AMEMBASSY CANBERRA

INFO USMISSION EC BRUSSELS

USDEL MTN GENEVA

USMISSION GENEVA

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E.O. 11652: N/A

TAGS:ETRD, GATT

SUBJECT: GATT WAIVER FOR U.S. SECTION 22 IMPORT QUOTAS

REF: GENEVA 8972

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1. EMBASSIES ARE REQUESTED TO APPROACH HIGH LEVEL TRADE AND/OR AGRICULTURAL OFFICIALS OF HOST GOVERNMENTS AND MAKE DEMARCHE IN REPLY TO FORMAL REQUEST BY AUSTRALIA, SUPPORTED BY NEW ZEALAND (REFTEL), THAT U.S. CONDUCT A REVIEW OF DAIRY SITUATION IN U.S. TO DETERMINE WHETHER GATT WAIVER FOR U.S. QUOTAS ON IMPORTED DAIRY PRODUCTS SHOULD BE MODIFIED OR TERMINATED. DEMARCHE SHOULD INCLUDE FOLLOWING POINTS:

(A) U.S. ACKNOWLEDGES ITS OBLIGATION UNDER GATT RULES TO CONDUCT A REVIEW OF CIRCUMSTANCES WHICH JUSTIFIED GRANTING OF GATT WAIVER FOR U.S. IMPORT QUOTAS UNDER SECTION 22 OF AGRICULTURAL ADJUSTMENT ACT, IF REQUESTED BY ANY GATT CONTRACTING PARTY. HOWEVER, WE BELIEVE HOLDING SUCH A REVIEW AT THIS TIME WOULD BE STRONGLY INIMICAL TO THE EFFORTS OF ALL THREE DIRECTLY CONCERNED COUNTRIES TO ACHIEVE MEANINGFUL LIBERALIZATION OF AGRICULTURAL TRADE. ACCORDINGLY, WE URGE THAT THE REQUEST FOR A REVIEW AT THIS TIME NOT BE PURSUED.

(B) AS IN AUSTRALIA AND NEW ZEALAND, THE DAIRY INDUSTRY IN THE U.S. IS AN AREA OF GREAT POLITICAL SENSITIVITY. DURING 1975, U.S.G. SPENT \$379.9 MILLION ON PURCHASES OF DAIRY PRODUCTS UNDER CCC TO SUPPORT PRICES. ON JANUARY 2, 1976, THE SENATE COMMITTEE ON AGRICULTURE RELEASED A STUDY, PREPARED BY USDA, ENTITLED "THE IMPACT OF DAIRY IMPORTS ON THE U.S. DAIRY INDUSTRY." THE REPORT (BEING POUCHED TO ALL ADDRESSEES) STATES THAT THE ABOLITION OF SECTION 22 IMPORT QUOTAS ON DAIRY PRODUCTS WOULD RESULT IN A STEEP DECLINE (ABOUT 25) IN DAIRY PRICES IN 1976, DRASTICALLY REDUCED FARMER INCOME, AND THE ELIMINATION OF OVER HALF OF U.S. BUTTER FACTORIES AND OVER ONE QUARTER OF U.S. CHEESE FACTORIES. IT IS INCONCEIVABLE THAT CONGRESS WOULD PERMIT STEPS WHICH COULD RESULT IN EVEN A SMALL PART OF SUCH A RESULT. ANY DECISION IN THE GATT TO REQUIRE THE U.S. TO CONDUCT A "REVIEW" PURPORTING TO DETERMINE WHETHER THE ELIMINATION OF SECTION 22 QUOTAS IS WARRANTED WOULD IMMEDIATELY DRAW CONGRESSIONAL FIRE AND RISK THE IMPOSITION OF A TIGHT REIN ON OUR EFFORTS TO NEGOTIATE LIBERALIZATION OF DAIRY TRADE IN THE MTN.

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(C) THE U.S. HAS REPEATEDLY STATED THAT ALL OBSTACLES TO LIBERALIZED TRADE IN DAIRY PRODUCTS, INCLUDING OUR SECTION 22 QUOTAS, SHOULD BE ON THE NEGOTIATING TABLE IN GENEVA. DESPITE STRONG DOMESTIC CRITICISM OF THIS POSITION, WE CONTINUE TO HOLD THE VIEW THAT THE APPROPRIATE APPROACH TO PROBLEMS IN WORLD DAIRY TRADE IS THROUGH MULTILATERAL EFFORTS. U.S. POSITION WAS SET FORTH AT JUNE 1975 MEETING OF MTN SUBGROUP ON DAIRY PRODUCTS:

"WE ARE PREPARED TO EXPLORE POSSIBILITIES FOR LIBERALIZING DAIRY QUOTAS IN THE CONTEXT OF MULTILATERAL SOLUTIONS, PROVIDED, OF COURSE, THAT OTHER COUNTRIES ARE ALSO WILLING TO LIBERALIZE THEIR TRADING PRACTICES SO THAT OUR OWN DAIRY INDUSTRY IS NOT PUT AT AN UNFAIR COMPETITIVE DISADVANTAGE..."

"THE OBJECTIVES OF THE NEGOTIATIONS SHOULD INCLUDE REDUCTION, IF NOT ELIMINATION, OF THE VARIOUS FORMS OF PROTECTION AND TRADE DISTORTING MEASURES WHETHER THESE BE SUBSIDIES, VARIABLE LEVIES, QUOTAS, MIXING REGULATIONS, IMPORT LICENSING, MINIMUM IMPORT PRICES, UNWARRANTED SANITARY CONTROLS, OR OTHER TYPES OF BORDER RESTRICTIONS."

(D) AUSTRALIA AND NEW ZEALAND ARE FUNDAMENTALLY INTERESTED IN LIMITATIONS OUR SECTION 22 QUOTAS IMPOSE ON THEIR DAIRY EXPORTS, NOT IN TECHNICALITIES SURROUNDING U.S. WAIVER. MULTILATERAL NEGOTIATIONS AIMED AT LIBERALIZATION IN DAIRY TRADE OFFER BEST, PROBABLY ONLY, CHANCE FOR THEM

TO SUCCEED VIRTUALLY EVERY DAIRY PRODUCING COUNTRY CONTROLS IMPORTS AND ONLY REAL DIFFERENCE BETWEEN U.S. AND OTHERS IS IN CONTROL MECHANISMS. WHEREAS U.S. OPERATES UNDER GATT WAIVER OF ITS NECESSARY QUOTAS AND ACCEPTS OBLIGATIONS OF REPORTING AND PERIODIC STOCKTAKING, OTHER COUNTRIES SIMPLY LIMIT IMPORTS THROUGH VARIABLE LEVIES, DAIRY BOARDS, INTERNAL LICENSING, AND OTHER TECHNIQUES WITHOUT ANY GATT SURVEILLANCE. WE RECOGNIZE THAT GIVEN PRESENT PROBLEMS IN WORLD DAIRY TRADE, NO COUNTRY CAN ACCEPT UNILATERAL ADJUSTMENTS WHICH WOULD FORCE ITS DOMESTIC PRODUCERS TO BEAR GREATER SHARE OF BURDEN OF WORLDWIDE SURPLUSES. PURSUIT OF TACTIC OF GATT REVIEW OF OUR LIMITED OFFICIAL USE

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SECTION 22 QUOTA WAIVER LIKELY TO PRODUCE SAME KIND OF OUTCRY IN U.S. AS WOULD RESULT IN AUSTRALIA AND NEW ZEALAND IF U.S. SOUGHT, THROUGH GATT, ABOLITION OF AUSTRALIAN AND NEW ZEALAND DAIRY BOARDS.

(E) WHILE U.S. RECOGNIZES REQUIREMENT TO CONDUCT REVIEW IF REQUEST IS PURSUED, WE ARE CONFIDENT THAT ANY SUCH REVIEW WOULD NOT REPEAT NOT RESULT IN A FINDING THAT SECTION 22 QUOTAS SHOULD BE TERMINATED AND WOULD HAVE COUNTERPRODUCTIVE CONSEQUENCES NOTED ABOVE. ACCORDINGLY, WE URGE THAT AUSTRALIA NOT PUSH ITS REQUEST AND HOPE THAT NEW ZEALAND WILL CONCUR IN WISDOM OF SUCH A DECISION.

2. FYI. WE REGARD THE REVIEW REQUEST AS AN ATTEMPT BY AUSTRALIA AND NEW ZEALAND TO STRENGTHEN THEIR BARGAINING

POSITION IN THE MTN, IN THE HOPE THEY CAN GAIN
CONCESSIONS ON U.S. QUOTAS WITH LITTLE (OR NO) RECIPRO-
CITY. IF OBJECTIVE IS TO IMPRESS UPON U.S. SERIOUSNESS
OF U.S. QUOTA ISSUE TO AUSTRALIA AND NEW ZEALAND, EMBASSIES
MAY STRESS THAT POINT HAS BEEN MADE; PUSHING IT FURTHER
LIKELY TO BACKFIRE. IN VIEW OF OUR MANY COMMON INTERESTS,
U.S. SEEKS CLOSE COOPERATION WITH AUSTRALIA AND NEW
ZEALAND IN MTN NEGOTIATIONS ON AGRICULTURAL TRADE, AND WE
DO NOT WANT QUOTA ISSUE TO BECOME DEVISIVE IRRITANT.
EMBASSIES' DEMARCHES SHOULD THEREFORE BE FRIENDLY
AND LOW KEY, ALTHOUGH FIRM AND HIGH LEVEL. END FYI. SISCO

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Draft Date: 20 JAN 1976
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